

The TSP Modernization Act

Each year, federal workers transfer \$9 billion out of their TSP retirement funds and into other (higher fee) retirement accounts upon turning 59½ or separating from federal employment. The reason? TSP surveys show that the plan's overly restrictive withdrawal options - much more restrictive than typical 401(k) plans - are not worth the lower fees for many people. This draft legislation offers four legislative solutions to modernize the TSP:

- 1) **Age-based (59½) withdrawals while in-service.** Current TSP rules allow only one age-based withdrawal while actively employed in federal service. And participants taking this type of withdrawal may not take a partial withdrawal once separated. The result? Participants enlarge that withdrawal in order to get their money's worth.

Solution: Add flexibility by allowing multiple age-based withdrawals and subsequent post- separation partial withdrawals.

- 2) **Partial post-separation withdrawal.** Current TSP rules allow only one partial post-separation withdrawal (and none for those who had made an in-service age-based withdrawal) - after which only full-withdrawal options are available.

Solution: Add individual flexibility by allowing multiple partial post-separation withdrawals (although TSP could impose some limits if a deluge of withdrawals steeply raises administrative costs).

- 3) **Full withdrawal via periodic payments.** Currently, periodic payments can be selected only in monthly intervals. Additionally, the payment amount can be adjusted only once per year and this must occur just prior to the beginning of the next calendar year. These payments can be reduced to as low as \$25/month. However, the recurring payments cannot be stopped unless a participant withdraws their entire remaining balance. Participant enrolled in periodic-payments status cannot elect a partial withdrawal or annuity purchase.

Solutions: A) Allow a schedule of quarterly or annual withdrawal payments; B) Allow participants to change payment amounts anytime; C) Permit stoppage of periodic payments while allowing the remaining balance to stay in the Plan (subject to RMD requirements); and D) Permit flexibility to select a partial withdrawal or annuity purchase while in periodic payment status. This will provide flexibility, and make it easier to elect periodic payments over lump sum distributions.

- 4) **Withdrawal election deadline.** TSP participants are required to make a post-separation withdrawal election by April 1 of the year following the year in which they turn 70½ and are separated from Federal service. This is separate of the IRS requirement to begin distributing required minimum distributions (RMD's) on the same day. Participants often conflate the two deadlines, and end up withdrawing their entire balance on the day.

Solution: Eliminate the TSP withdrawal election deadline.

Federal employee organizations, as well as groups supporting more rational retirement savings, should welcome this bill. The TSP Employee Advisory Council also strongly supports this bill.

There is no CBO score yet, but the impact is estimated to be modest. It may even save money if it results in earlier (taxable) TSP withdrawals.

Even if one supports making it difficult to withdraw money from TSP until absolutely necessary, current policies are merely enlarging the one-time withdrawals and inducing people to transfer their accounts to more flexible plans. Therefore, we have not heard any opposition to the bill.